GOODS & SERVICES TAX (GST) Malaysia
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Latest GST Developments in Malaysia
2014 Budget Announcement highlighted:-

1) GST shall replace existing Sales and Service Tax (SST) effective **1 Apr 2015**

2) GST shall charged and levied on any **supply** of goods and services made **in Malaysia** and any **importation of goods** into Malaysia.

3) GST will **NOT** imposed on basic necessity food items, transportation services, first 300 units of electricity, piped water supply, services provided by government etc

4) Proposed GST standard rate is **6%**
2014 Budget Announcement highlighted (con’t):-

5) Double deduction for expenses incurred on training in accounting and ICT for GST in respect of years of assessment (YAs) 2014 and 2015.

6) Financial assistance amounting to RM150 millions is provided to SMEs for purchase of accounting software.
Introduction to GST
INTRODUCTION TO GST

1. **Direct Tax – Income Tax**
   - Derived from Business Profits;
   - Governed under Income Tax Act 1974

2. **Indirect Tax – SST and GST**
   - Currently, it is still under SST (10% S/ Tax while 6% service Tax)
   - To be replaced by Goods & Services Tax (GST) at 6% (effective 1 April 2015); governed under the GST Act
What is Goods and Services Tax (GST)?

- Tax on all taxable goods and services unless specifically exempted. (Rate – 6%; Threshold – RM500,000)

- Tax is paid when:
  - Goods or services are purchased from GST registered traders
  - Goods are imported into Malaysia

- Self-assessed tax
INTRODUCTION TO GST

Principles of GST

- A broad-based consumption tax in the form of value added tax.
- Multi stage tax based on net value at each stage of business transaction up to the retail stage of distribution.
- Cover all sectors of the economy and imposed on the supply of goods and services with minimum exemptions and zero rating.
- Tax on final consumption.
- GST incurred on inputs is allowed as a credit to the registrant (offset against output tax).
INTRODUCTION TO GST

What is taxable?

- All goods and services are taxable except those that are exempted

- For goods/services not exempted, two tax rates apply:
  - Standard rate (6%) (local consumption)
  - Zero rate (0%) (exports & international services)

- Exempt supplies such as residential properties and financial services, domestic transportation, etc
INTRODUCTION TO GST

How GST Works

GST on supply of goods & services
(Output tax)

less

GST paid on business purchases
(Input tax)

equals

Net GST
INTRODUCTION TO GST

How GST Works

Net GST

+ Payable to Custom

- Refundable from Custom
INTRODUCTION TO GST

Retailer
$700 + $42 (GST)
Output tax = $42
Input tax = $30
Net GST payable = $12

Wholesaler
$500 + $30 (GST)
Import GST = $30

Retailer
$700 + $42 (GST)
Output tax = $60
Input tax = $42
Net GST payable = $18

End-consumer
$1000 + $60 (GST)
GST Mechanism – Supplies
Taxable Supply

- A supply of goods or services made in Malaysia other than an exempt supply
- Consists of standard-rated and zero-rated supplies
### Examples Type of Supplies

<table>
<thead>
<tr>
<th>TAXABLE SUPPLIES</th>
<th>NON-TAXABLE SUPPLIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Standard-Rated Supply (6%)</strong></td>
<td><strong>1. Exempt Supply</strong></td>
</tr>
<tr>
<td>• Local sales of goods &amp; services</td>
<td>• Residential Properties</td>
</tr>
<tr>
<td></td>
<td>• Financial Services</td>
</tr>
<tr>
<td></td>
<td>• Private health &amp; education</td>
</tr>
<tr>
<td><strong>2. Zero-Rated Supply (0%)</strong></td>
<td><strong>2. Out-of-Scope Supply</strong></td>
</tr>
<tr>
<td>• Export of Goods</td>
<td>• Third Country Sales (Sales outside Malaysia)</td>
</tr>
<tr>
<td>• Basic necessities (e.g. foodstuff, livestock, egg, fish, vegetables, etc)</td>
<td></td>
</tr>
</tbody>
</table>
### APPLICATION EXERCISE

<table>
<thead>
<tr>
<th>Supplies</th>
<th>6%</th>
<th>0%</th>
<th>Exempt</th>
<th>Out of scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of RM400,000 worth of goods sent to my local customer for his export to Japan.</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit of RM35,000 in local bank, which yield an interest of RM1,500.</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Deposit of RM35,000 in overseas bank, which yield an interest of RM1,500.</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>
## APPLICATION EXERCISE

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Taxable supply?</th>
<th>Type of supply</th>
<th>Made by taxable person?</th>
<th>In course or furtherance of business?</th>
<th>Charge GST?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A GST registered art dealer buys painting in London, sells and sends it to the customer in Japan</td>
<td>N</td>
<td>Out of scope</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>A GST registered art dealer imports painting from London, sells and exports it to the customer in Japan</td>
<td>Y</td>
<td>Zero-rated</td>
<td>Y</td>
<td>Y</td>
<td>Y (0%)</td>
</tr>
<tr>
<td>A GST registered art dealer sells his business assets in Malaysia</td>
<td>Y</td>
<td>Std-rated</td>
<td>Y</td>
<td>N</td>
<td>Y (6%)</td>
</tr>
<tr>
<td>Scenarios</td>
<td>Taxable supply?</td>
<td>Type of supply</td>
<td>Made by taxable person?</td>
<td>In course or furtherance of business?</td>
<td>Charge GST?</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>-----------------</td>
<td>-------------------------------</td>
<td>-------------------------</td>
<td>----------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>A developer develops and sells residential properties</td>
<td>N</td>
<td>Exempt</td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>A GST registered developer develops and sells residential and commercial properties in a mixed development project in Malaysia</td>
<td><strong>Y</strong> (Commercial)</td>
<td><strong>Std-rated</strong> (Commercial) Exempt (Residential)</td>
<td><strong>Y</strong></td>
<td><strong>Y</strong></td>
<td><strong>Y (6%) + (0%)</strong></td>
</tr>
<tr>
<td>A GST registered developer develops and sells commercial properties outside Malaysia</td>
<td>N</td>
<td>Out of scope</td>
<td><strong>Y</strong></td>
<td><strong>Y</strong></td>
<td>N</td>
</tr>
</tbody>
</table>
GST Registration & Liability to Register
GST registration: -

- Registration is mandatory for business whose turnover has exceeded the prescribed threshold of **RM500,000**
- Historical turnover (based on turnover of the current month and the preceding 11 months) > RM500K or
- Future turnover (based on turnover of the current month and the next 11 months) > RM500K;

- Pre-registration before implementation of GST
  - Application shall be made 3 months before GST implementation.
  - Early or pre – registration exercise to begin before GST implementation date.
Group Registration

- Applicable to wholly taxable supplier only
- Supply between members is disregarded

Deregistration

- To deregister if ceased to fulfil the required conditions
- Mandatory deregistration when the business ceases
- To notify within 30 days after the cessation of business
Taxable Period

- Regular interval period where a taxable person accounts and pays GST to the government
- The taxable period will be determined at the time when the GST registration is approved
  - Quarterly basis – for businesses with annual turnover not exceeding RM5 million
  - Monthly basis – for businesses with annual turnover exceeding RM5 million

A taxable person may apply to be placed in any other category other than his pre-determined taxable period.
Liability to Register
You Are Registered As A **Sole-Proprietor**

Qn: What if you set up another sole-proprietorship business in the future, do you need to register this new business?

Ans:
- **No.** As a sole-proprietor, you are already GST registered in your individual name
- You should use the same GST registration number to charge GST with effect from the date of commencement of your new business
- To determine registration liability, to aggregate taxable turnover of all your sole-proprietorship businesses.
Liability to Register

You Are Registered As A **Partnership**

**Qn:** What should you do if you set up another partnership business with the same composition of partners?

**Ans:**
- Registration is in the name of the respective firms.
- Must register the new partnership.
- To determine registration liability, to aggregate taxable turnover of **all** partnerships having the same composition of partners.
Claiming GST on Input Tax
Conditions for claiming input tax

You can claim GST incurred on your purchases if:

- You are GST-registered;
- You are the recipient of the goods/services;
- The goods/services are for business purpose;
- The GST incurred is for the making of your taxable supplies;
- The purchase is supported by valid tax invoice/import permit in your business name; and
- The GST incurred are not specifically disallowed.
To claim GST incurred on imports:

- You must be the legal owner of the imports
- You must maintain the GST payment permit and other relevant documents (e.g. invoice from overseas supplier) to support the claim
Obligations of GST - Tax Invoices, GST Displaying Prices and GST Price Inclusive Calculation
### OBLIGATIONS OF GST-TAX INVOICES

#### Issuing tax invoices

| Importance of Tax Invoice | Must be issued if making a standard-rated supply to a taxable person  
Within 28 days from time of supply |
|--------------------------|---------------------------------------------------------------------|
| Primary document for input tax claim  
Documentary evidence that GST has been charged on the standard-rated supply |
### OBLIGATIONS OF GST-TAX INVOICES

**Contents of a Tax invoice**

1. An identifying number;
2. Invoice date;
3. Customer’s name (or trading name) and address;
4. Description of goods and services;
5. Your name, address and GST registration number;
6. The words “tax invoice”;
7. Total amount payable excluding tax, the rate of GST and the total tax chargeable shown separately;
8. Total amount payable, including tax;
9. Breakdown of exempt, zero-rated or other supply, stating separately the gross amount payable in respect of each supply.

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**TAX INVOICE**

ABC SDN BHD  
111 Jalan Cheras  
52000 Kuala Lumpur  
GST Reg No: M2-1234567-K

(Customer’s Name)  
(Customer’s Address)  
(Customer’s Address)

Date: 01/07/2007  
Invoice No: IV00021

**Type of Supply: Cash / Credit Sale**

<table>
<thead>
<tr>
<th>S/No</th>
<th>Description</th>
<th>Qty</th>
<th>Unit Price (RM)</th>
<th>Total (RM)</th>
<th>Discount (RM)</th>
<th>Total (RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Projector</td>
<td>10</td>
<td>1,250</td>
<td>12,500</td>
<td>500</td>
<td>12,000.00</td>
</tr>
<tr>
<td>2</td>
<td>Kitchen Cabinet</td>
<td>1</td>
<td>25,000</td>
<td>25,000</td>
<td>1,000</td>
<td>24,000.00</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td><strong>36,000.00</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Add GST @ 6%  

Amount Due:  

Thank you. We look forward to being of service to you again.
OBLIGATIONS OF GST-GST DISPLAYING PRICES

Displaying GST inclusive prices

- Any price displays, advertisements, or quotations in respect of goods or services made to the public must be inclusive of GST

- Failure to comply with the GST-inclusive price display requirement is an offence
Displaying Prices: Which are acceptable?

<table>
<thead>
<tr>
<th>Price Displayed as</th>
<th>Acceptable?</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM106 (inclusive of GST)</td>
<td>Yes</td>
</tr>
<tr>
<td>RM100 +</td>
<td>No</td>
</tr>
<tr>
<td>RM100 + GST</td>
<td>No</td>
</tr>
<tr>
<td>RM100 + 6% GST</td>
<td>No</td>
</tr>
<tr>
<td>RM100 + RM6 GST</td>
<td>No</td>
</tr>
</tbody>
</table>
OBLIGATIONS OF GST- GST INCLUSIVE CALCULATION

Do I need to account for the GST that I absorb?

- If you are absorbing GST on your sales, still need to pay GST to GST-Custom.

- GST to be calculated as follows:
  \[ \text{GST} = \frac{6}{106} \times \text{selling price} \]
Preparing for GST Implementation – Getting Ready and Record Keeping
PREPARING FOR GST IMPLEMENTATION – GETTING READY

- Accounting/ IT systems
- Pricing
- Supply Management
- Communication
- Staff
- Transitional Provisions
- Contractual Commitments
- Identifying all areas impacted (people, process, infrastructure).
- Full commitment and involvement across entire organisation.
- Targeted awareness and training.
- Robust project management.
- Planning change management.
- Adequately address internal and external communications.
PREPARING FOR GST IMPLEMENTATION
- RECORD KEEPING

Keeping of records

What Records To Keep?

- Business and accounting records
- Tax invoices and receipts issued/received
- Credit notes and debit notes
- Business contract and agreement
- Tourist refund claim forms
- Import and export documents (e.g. permit, bill of lading, airway bill)
- Other documents supporting GST declaration
Examples of Business and Accounting Records:

- General Ledgers / Debtors and Creditors Ledgers
- Purchase Orders and Delivery Notes
- Purchase and Sales Books / Cash Books and other account books
- Records of daily takings
- Stock records
- Bank Statements and Bank-in Slips
- Relevant Business Correspondences
- GST Accounts
- Financial Statements etc.
Other Records:

- Business goods put to non-business use
- Disposal of business assets
- Supplies of goods and services received
- Removal of goods from Customs-licensed warehouse
To keep the following listings:

### Sales Listing

<table>
<thead>
<tr>
<th>Invoice Date</th>
<th>Invoice Number</th>
<th>Name of Customer</th>
<th>Description</th>
<th>Invoice Amount excluding GST ($)</th>
<th>GST ($), if applicable</th>
<th>Destination of goods (for exports)</th>
</tr>
</thead>
</table>

### Purchases Listing

<table>
<thead>
<tr>
<th>Invoice Date</th>
<th>Invoice Number</th>
<th>Name of Supplier</th>
<th>Supplier’s GST registration number</th>
<th>Description</th>
<th>Invoice Amount excluding GST ($)</th>
<th>GST ($), if applicable</th>
</tr>
</thead>
</table>
Liability to Keep Records

All business and accounting records related to GST must either be in Bahasa Malaysia or English, kept for a period of 7 years, and made available upon request.

Filing of Returns

GST return and payments must be submitted not later than the last day of the month following the end of the taxable period; electronic filing is encouraged.
Penalties and Recovery Actions
Penalty for Late Payment

If any tax due and payable remains unpaid by a person after the last day on which it becomes due and payable, a penalty will be imposed as follows:

<table>
<thead>
<tr>
<th>Tax remains unpaid</th>
<th>Rate of penalty</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-30 days</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>31-60 days</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>61-90 days</td>
<td>3%</td>
<td>13%</td>
</tr>
<tr>
<td>91-120 days</td>
<td>3%</td>
<td>16%</td>
</tr>
<tr>
<td>121-150 days</td>
<td>3%</td>
<td>19%</td>
</tr>
<tr>
<td>151-180 days</td>
<td>3%</td>
<td>22%</td>
</tr>
<tr>
<td>181 days or more</td>
<td>3%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Penalty for Incorrect Return
Fine = Not more than RM50,000/- or not more than 3 years imprisonment.

Penalty for Late Registration
Fine = RM1,500/- for first 30 days.
Fine = Maximum RM20,000/- for more than 360 days.

Penalty for Evasion of Tax, Fraud
i) First Offence - Fine = Not less than 10 times and not more than 20 times or not more than 5 years imprisonment; or both.
ii) Second Offence - Fine = Not less than 20 times and not more than 40 times or not more than 7 years imprisonment; or both.
Penalty for Improperly Obtaining Refund, etc
i) Fine = Not more than RM50,000/- or not more than 3 years imprisonment; or both. AND
ii) Penalty = 2 times the amount refunded.

Penalty for Offences in Relation to Goods, Invoices and Receipts
i) Fine = Not more than RM30,000/- or not more than 2 years imprisonment; or both. AND
ii) Penalty = 2 times the amount of the tax payable.

Penalty for Obstructing, etc., Officer of Goods and Services Tax
Fine = Not more than RM100,000/- or not more than 7 years imprisonment; or both
Tips on Compliance
Mistakes are costly!

- Other than paying back taxes, there are penalties

- Other cost:
  - manpower to rectify errors
  - reporting to business owners/shareholders
TIPS ON COMPLIANCE

- Most cost efficient & effective (for both Customs & traders) if good compliance established early
  - Cost to rectify errors higher, the longer the errors cascade
  - Having peace of mind, that tax obligations are under control
TIPS ON COMPLIANCE

Two Elements of Good Compliance

- Systems & processes to capture transactions accurately
- Mindset to comply fully
| Good internal control | 1) All transactions are captured timely and accurately  
- Good filing system  
- Records easily understood and clearly crossed referenced |
|-----------------------|--------------------------------------------------------------------------------------------------|
|                       | 2) No double claiming of purchases  
- Retain supporting documents  
- Input tax claimed only upon receipt of tax invoices |
|                       | 3) Ability to track all creation, amendment and approval of transactions |
|                       | 4) Returns reviewed by another person before submission |
## TIPS ON COMPLIANCE

### Systems & Processes

<table>
<thead>
<tr>
<th>Use of suitable accounting system/software</th>
<th>1) Detect duplicate, incomplete or incoherent records</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2) Generate sales &amp; purchases listings / GST reports</td>
</tr>
<tr>
<td></td>
<td>- Preferably convertible to excel format</td>
</tr>
<tr>
<td></td>
<td>- Final figures reported in GST returns should tally with listings</td>
</tr>
</tbody>
</table>
## TIPS ON COMPLIANCE

### Mindset to Comply

<table>
<thead>
<tr>
<th>Training</th>
<th>1) Ensure staff adequately trained in GST reporting / Engage the right person for GST reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2) Keep abreast with GST development</td>
</tr>
<tr>
<td></td>
<td>- Visit GST website/Attend relevant courses</td>
</tr>
<tr>
<td></td>
<td>- Clarify unsure treatments</td>
</tr>
<tr>
<td>Regular Review</td>
<td>1) Conduct regular check on past returns</td>
</tr>
<tr>
<td></td>
<td>- Voluntary disclosure of errors uncovered</td>
</tr>
<tr>
<td>Management</td>
<td>1) Directors/shareholders to take interest in accuracy of GST reporting</td>
</tr>
<tr>
<td></td>
<td>2) Ensure proper handover during staff turnover</td>
</tr>
</tbody>
</table>
CASE STUDY